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PRESENTATION

Operator

Welcome to the Third Quarter 2021 ICF Earnings Conference Call. My name is Vanessa, and I will be your operator for today's call. (Operator Instructions) Please note, this conference is being recorded on Tuesday, November 2, 2021, and cannot be reproduced or rebroadcast without permission from the company. And now I would like to turn the program over to Lynn Morgen of AdvisIRy Partners.

Lynn Morgen ***AdvisIRy Partners***

Thank you, Vanessa. Good afternoon, everyone, and thank you for joining us to review ICF's third quarter 2021 performance. With us today from ICF are John Wasson, President and CEO; and Bettina Welsh, CFO. Joining them is James Morgan, Chief of Business Operations.

During this conference call, we will make forward-looking statements to assist you in understanding ICF management's expectations for our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our November 2, 2021, press release and our SEC filings for discussions of those risks. In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light. We may, at some point, elect to update the forward-looking statements made today, but specifically disclaim any obligation to do so.

I will now turn the call over to ICF's CEO, John Wasson, to discuss third quarter 2021 performance. John?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Thank you, Lynn, and thank you all for participating in our call today to review our third quarter and year-to-date performance and discuss our business outlook. By all measures, this was another strong quarter for ICF, demonstrating the positive momentum in our business that we have experienced throughout this year and pointing to the substantial growth opportunities on the horizon as we head into 2022.

Key takeaways that I would like to highlight include: the continued revenue growth from government and commercial energy clients, which together accounted for 88% of year-to-date revenues; the 7.1% year-to-date increase in service revenue, of which over 60% represented work in the key growth areas that we identified 2 years ago and where we believe the opportunities are even more robust given the current administration's priorities; our efficient execution on existing contracts, which in tandem with higher utilization and other positive factors drove the exceptional expansion of our adjusted EBITDA to service revenue margin— while this margin level is not sustainable due to higher anticipated costs in future periods, we expect our business model to be able to continue to drive considerable operating leverage; and our success in retention and new business capture, which resulted in a book-to-bill of 1.5x in Q3 and 1.33x for the trailing 12 months.

These metrics, along with our record new business development pipeline of $7.3 billion, underscore how well aligned ICF's subject matter expertise and cross-cutting implementation skills are with market demand.

Looking more closely at our performance by client category, third quarter federal government revenues increased 11.4% year-on-year, led by our continued work in IT modernization, digital transformation, public health and social programs, climate change and resilience. We continue to execute well on our IT modernization and digital transformation contracts, with year-to-date service revenue growth in this area of 17%. And our pipeline of new opportunities has never been higher, reaching $1.8 billion at the end of the third quarter.

This has also been a strong year for us in public health contract awards. In the third quarter alone, ICF was awarded over $75 million in recompete contracts by the U.S. Centers for Disease Control and Prevention and the National Institutes of Health to support the nationwide surveillance platform, BioSense, as well as to provide an array of digital transformation, health surveillance, program management and communication services to several agencies, divisions and offices to support HIV prevention, smoking cessation, cancer prevention and genetic rare disease research.

Additionally, we were awarded $15 million in contracts tied to COVID-19 response, bringing the cumulative total value of our pandemic-related contract wins to over $70 million.

Today, we announced the acquisition of a small but uniquely specialized firm that further strengthens ICF's position in the public health arena. ESAC brings advanced health analytics and bioinformatics capabilities to ICF along with a highly credentialed 40-person staff that serves a roster of government and academic clients as well as federally funded research centers and private organizations. We look forward to working together with the ESAC team to gain revenue synergies by expanding ICF services at existing federal clients and leveraging their contract relationships with clients such as the Centers for Medicare and Medicaid Services and the Department of Veterans Administration.

On a related note, you will see in our earnings release that we called out an after-tax third quarter expense of $0.12 per share related to M&A costs. This was in connection with a highly competitive transaction that we pursued, but ultimately passed on late in the process as pricing moved above our comfort zone based on anticipated revenue synergies.

Revenues from state and local government clients increased 15% in the third quarter, reflecting growth in our disaster management and environmental consulting work. We continue to extend and expand our work in Puerto Rico in the third quarter, occupying a central role in FEMA project formulation and grants management, and we won a new award for $22.1 million for the City Revitalization Program under the Puerto Rico Department of Housing. In addition, in early October, the Puerto Rico Disaster Recovery Transparency Portal noted that ICF was awarded a 33-month $89 million contract for follow-on FEMA grant management support. ICF has a rigorous process for announcing new contract wins, but we wanted to make sure you're aware of this notification.

The mitigation market continues to develop as U.S. communities continue to suffer from the increasing evidence of severe weather-related events. In the third quarter, FEMA released a notice of funding opportunity for the 2021 Building Resilient Infrastructure and Communities program, known as BRIC, at double the funding levels of 2020. In addition, more than half the opportunities in the HUD-funded Community Development Block Grant Mitigation Appropriations funded by Congress in 2018 remain to be awarded. Just yesterday, HUD announced the allocation of more than $2 billion in CDBG disaster recovery and mitigation funding for 15 separate disasters that occurred across 10 states in 2020. And we expect the Biden administration to continue to add to mitigation programs in the future. With climate, resilience and grants management qualifications and our position as the largest provider in the CDBG mitigation program, ICF continues to be very competitive within the mitigation and resilience markets.

Additionally, we continue to support our state and local government clients with environmental services, particularly in transportation, water, energy and planning and development. ICF was recently awarded a new $30 million environmental services contract for the San Francisco Bay Area Rapid Transit Authority's Link21 program to provide environmental services to support a major infrastructure expansion to its passenger rail network. ICF's climate, environment and transportation divisions also won a number of contracts in the third quarter, including multiple task orders with the City and County of Honolulu, the Texas Department of Transportation, the California Energy Commission, the Minnesota Metropolitan Council, New York City Mayor's Office of Sustainability, the Metropolitan Washington Council of Governments and Hawaii State Energy Office.

As noted in our earnings release, revenues from international government clients increased substantially in the third quarter, with approximately 1/3 of the 60% increase tied to a sizable short-term project with substantial pass-through revenues that we expect to wind down by the end of Q1 2022. In terms of trends, we are seeing greater clarity from clients, particularly in the European Commission, on new funding initiatives as the impact of COVID recedes and continued demand for services related to climate and social inclusion.

Moving to the commercial category. In marketing services, we continue to gain recognition for excellent client work and winning new business, but overall activity levels remain below pre-pandemic levels, turnover is an industry-wide issue, and year-on-year revenue comparisons reflect the completion of a large contract at the end of last year. That said, we continue to leverage the excellent engagement qualifications and expertise that are resident in our commercial marketing business across the ICF footprint, which is materializing in expanded work from government and commercial energy clients. And we continue to carefully manage this part of our commercial business, which represented about 9% of total year-to-date revenues.

In the last 2 quarters, we have seen a discernible pickup in our aviation consulting business. While still a small part of our commercial revenues, our airline and airport clients are engaging ICF for sustainable aviation and tourism projects in Europe and for logistics projects in North America.

Our energy market work remained the core of ICF's commercial client category. Year-to-date revenues increased 8.7%, representing solid growth across our energy efficiency, energy markets advisory and domestic environmental services businesses.

With contract awards from utility clients, including traditional energy efficiency programs, electrification programs, distributed energy resources and customer analytics, we anticipate continued strong market demand. And while we are one of the largest players in this area, we believe there is opportunity to not only grow within the market, but to also increase our market share.

In addition to California, we continue to monitor developments in several other states as energy efficiency-related programs are instituted or expanded to address state climate targets. For example, in New York, ICF implements the Clean Heat program for all the New York investor-owned utilities. This innovative program is designed to replace fossil fuel heating systems with electric heat pumps. We expect similar electrification programs, including expansion of electric vehicle programs in several other jurisdictions.

Also, our energy markets advisory business has seen continued high demand for ICF's financial and engineering due diligence services around the deployment and development of renewable resources and energy storage.

Our environmental services business has also been active on energy project development opportunities as we won an additional contract for an East Coast offshore wind project, a construction compliance project for solar development in Arizona, an environmental impact assessment for a wind project at Wyoming and numerous smaller engagements with renewable developers and utilities.

This gives you a good sense of the breadth of our commercial energy portfolio of services, which we see as having substantial runway for growth in the coming years.

In summary, the third quarter marked another period of significant growth for ICF following the very positive comparisons we achieved in the first half of this year. This performance has set the stage for an excellent 2021 and together with our strong backlog and robust business development pipeline, underscores ICF's significant growth prospects for 2022 and beyond. And there do remain additional catalysts in the near term associated with infrastructure and stimulus legislation and 2022 civilian fiscal priorities that could further expand our growth opportunities for the next year and beyond.

Now I'll turn the call over to our CFO, Bettina Welsh, for a financial review. Bettina?

Bettina Garcia Welsh ***ICF International, Inc. - Senior VP & CFO***

Thank you, John. Good afternoon, everyone. Our total revenue increased 9.4% to $394.1 million year-on-year, led by a 16.1% increase in revenue from government clients and a 3% increase in revenue from commercial energy clients, which reflected the pull forward of energy efficiency program revenues in the first half of this year. Year-to-date revenue from commercial energy clients increased 8.7%, which is consistent with the positive business trends in this client category.

Third quarter pass-through revenue increased to 30.1% of total revenue from 26.5% in the year ago quarter, primarily due to higher activity on our USAID project work. For the first 9 months of 2021, pass-throughs accounted for 28.2% of total revenue, in line with our expectations for the full year. This takes into account the significant reduction in pass-through revenue that we highlighted for this year's fourth quarter resulting from the completion of a large commercial marketing contract.

Service revenue grew 4.1% year-over-year to $275.6 million and was up 7.1% year-to-date. Gross profit increased 2.1% year-on-year to $139.9 million. Gross margin on total revenue was 35.5%, lower year-to-year due to increased pass-throughs. On service revenue, gross margin was 50.8%, which was 100 basis points lower year-to-year due to timing of fee recognition on energy-related contracts.

Indirect and selling expenses were $99.9 million, similar to the $100.1 million in the third quarter of 2020. As a percentage of service revenue, indirect and selling expenses declined to 36.3%, 150 basis points below last year's third quarter, with the majority due to lower facilities and related costs.

Third quarter EBITDA was up 8.2% to $39.9 million and adjusted EBITDA, which excludes special charges, was up 16.1% to $43.8 million. Adjusted EBITDA margin on service revenue expanded 160 basis points to 15.9%, primarily reflecting higher utilization and the lower indirect and selling expenses as a percentage of revenue I just noted.

Operating income of $32.3 million was up 14.2% from the $28.3 million reported in the third quarter of 2020. Our tax rate was 31.6% compared to 27.2% in the third quarter of 2020 due to return-to-provision adjustments resulting from increased revenue generated in higher tax jurisdictions.

Net income for the quarter was $20.4 million or $1.07 per diluted share, up 14.1% and 13.8%, respectively, from the $17.9 million or $0.94 per diluted share reported in the third quarter of 2020. On a non-GAAP basis, excluding the impact of amortization of intangibles, M&A expense and severance and staff realignment charges, earnings per share increased 19.5% to $1.32 year-over-year.

Turning to cash flow, our year-to-date operating cash flow was $64.8 million and supports our increased operating cash flow guidance of $110 million, up from $100 million. Capital expenditures for the first 9 months were $12.3 million compared to $12.9 million in the prior year. Days sales outstanding for the third quarter were 76 days compared to 83 days last year.

In the third quarter, our net leverage ratio declined to 1.87, and we expect this to decline further to about 1.75 by the end of the year. Also, today, we declared a quarterly cash dividend of $0.14 per share payable on January 12, 2022, to shareholders of record on December 10, 2021.

For modeling purposes, here are our expectations for the full year 2021. Depreciation and amortization expense is expected to be in the range of $19 million to $20 million. Amortization of intangibles should be between $11.8 million and $12.2 million. Interest expense is now expected to range from $10 million to $11 million. And the full year tax rate will now be no greater than 29%. We expect fully diluted weighted average share count of approximately 19.1 million for 2021. And capital expenditures are anticipated to be approximately $20 million.

ICF's capital allocation priorities remain unchanged, balanced between investing to drive organic growth and making strategic acquisitions, as well as debt reduction and returning capital to shareholders in the form of dividends and share repurchases.

With that, I'll turn the call back to John for his closing remarks.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Thank you, Bettina. As you've seen in today's earnings release, our year-to-date performance and expectations for a good showing in Q4 have led us to increase our guidance range for full year 2021 GAAP EPS and non-GAAP EPS, which now represent year-on-year growth of 45% and 15%, respectively, at the midpoints. EBITDA is anticipated to be at the high end of the guidance range or slightly above. The guidance ranges for total revenue and service revenue remain the same.

We expect fourth quarter service revenue to be comparable to third quarter levels with similar trends, namely that growth in the government and commercial energy client categories will more than offset lower commercial marketing revenues. Also, we are pleased to be raising our full year operating cash flow guidance to $110 million from $100 million. Over 60% of ICF's year-to-date service revenue represented work in key areas in which we expect growth rates in the aggregate to be at least 10% over the next several years. These include the high-growth areas of IT modernization, public health, disaster management and utility consulting as well as climate, environment and infrastructure, which align well with the current administration's priorities. Additionally, we have the financial resources to pursue acquisitions that can further expand our addressable market.

Analysts and investors often hear me speak about ICF's culture as an important differentiator. Of course, we have not been immune from the staffing issues that have impacted others in our industry, and in fact, most industries in the country. That said, we believe we are navigating better than most and have expanded our recruiting and retention activities in today's challenging business environment. We have nurtured a collaborative culture at ICF for the past 50 years. It has enabled us to attract an exceptional group of people dedicated to making a difference by bringing together subject matter expertise with a broad range of cross-cutting skills that enable us to deliver positive results for our clients. We believe our culture has been a key factor in the company's success to date and will continue to drive our growth.

Lastly, on January 19, 2022, we will host an Investor Day in New York City to provide you with greater insight into the growth drivers we see on the horizon for ICF and give you the opportunity to engage with our subject matter experts and those leading our cost-cutting capabilities in technology and digital engagement. Invitations will be sent out shortly. Please direct any questions to Lynn Morgen. We do hope you can join us.

With that, operator, I'd like to now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have our first question from Tobey Sommer with Truist Securities.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

John, I was hoping you could maybe tell us about your acquisition appetite and intention, given what looks like what must have been a pretty big swing for the company.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I think as we've talked about in the past, Tobey, I mean M&A has been a key component of our strategy for the company for 15 years. As we've talked about in that period, we've enjoyed 15% compound average growth rate. About half of that has been organic, half of that has been inorganic. And I think as we look forward, we certainly continue to believe that we can add value and drive growth in the company through M&A activities. I think we remain focused in the same markets. We've talked about quite a bit over the last couple of years in the federal market, so looking at IT modernization and federal health markets and then on the commercial side looking in the energy industry. And I think that's been our focus. And we'll continue to look for the companies that bring in the deep domain expertise, implementation skills that we think we can really drive synergistic revenues. As we've talked many times, we don't do turnarounds. We don't do fixer-uppers. We're looking to get quality companies where we can make 1 plus 1 equal 3. And so I think the focus remains consistent with what we've talked about, and we're quite focused on trying to add scale and capability in these key growth markets where we can really drive significant synergistic value for shareholders.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

How would you describe the contract awards in the quarter with respect to sort of momentum established prior to the administration change versus processes and procurements that started after the baton was passed to the Biden administration?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. I think by and large, we're still winning awards that were in capture and bids submitted prior to the new administration. So the strong sales performance and the very strong book-to-bill results we've reported for the last 4 or 5 quarters, really, I think, are -- do not reflect the potential upside from this administration.

I think that I think we'll start to see -- I would expect to see opportunities from the new administration to play a larger role as we go into Q4 and Q1 in terms of our pipeline and potential awards. And as we start to win those, and it could be material certainly as we get into the second half of next year. But by and large, to date, I would say that the awards and the book-to-bill and the sales you've seen predate the administration.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

Okay. Just 1 or 2 more from me. I'll try to make them quick. What percentage of your employees are now vaccinated? And how do you ballpark the percentage of employees that you may lose due to vaccine mandates? This is a problem that corporate America largely is tackling, especially in, I mean, the services sector, of course.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Sure, of course. Yes. I think we're north of 95% of our employees are vaccinated. I mean we have stated that we imposed the vaccine requirement on our employees by, I think, the end of November. And so we're working through the last 5%. I think the results are increasing daily. My sense is we'll get the vast majority of folks vaccinated. I don't think we're going to see material impacts from a vaccination policy on our business. I think to the extent we have issues, we'll be able to manage it. I don't expect any material issues there. I will note all the officers in the company are vaccinated at this point. So certainly, the leadership is aligned on this issue, and I don't expect material impacts or material risk.

Tobey O'Brien Sommer ***Truist Securities, Inc., Research Division - MD***

And last question from me, if I could just get your broad sense for, if inflation, I mean, stays elevated for a period of time, how does that impact your ability to grow and to achieve the margin goals that you would like?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I think that -- I think as we've talked in the past, I think that ICF is fairly inflation resistant or proof. I mean, 65%, 70% of our work is in government markets that I don't think we'd see the impacts from inflation. The energy industry, I mean, again, I think it's not a significant concern. So I think we believe, the inflation, we'll be able to manage it, we'll be able to deliver our margins. Obviously, we're seeing wage inflation and wage pressures like every company in America is, and we're watching that carefully, monitoring it carefully. We're certainly doing what we need to remain in market and retain and keep our people motivated.

It is a challenging time. I do think on that front, we believe we'll be able to pass a significant portion of those costs to our clients. As we've also talked about, we are having -- we are achieving savings from the pandemic that we think will last for the long run, both in travel and entertainment and in facilities costs, which I think also provide a buffer to kind of manage pressures that we're feeling on the wage front. And so I guess that's a long-winded way of saying, Tobey, that I think we feel we're in good shape and should be able to managing weather and inflationary environment and deliver the margins and deliver on expectations.

Operator

And we have our next question from Joseph Vafi with Canaccord.

Joseph Anthony Vafi ***Canaccord Genuity Corp., Research Division - Analyst***

Good results. I'm just wondering if we could drill down a little bit more into some of the mitigation comments that you made, John, both on FEMA and then on the HUD side of things. It sounds like perhaps that those budgets are, at least on the FEMA side, they could be incrementally bigger than you thought and then timing on any piece of the business that could be put out to bid there. And then I'll have a follow-up.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Well, sure. I certainly think that there's certainly more emphasis in FEMA on mitigation funding. And as you know, and I said in the remarks, the budgets are increasing there. They've also opened the lens of what they'll support to include climate-related activities. And so I think that is a market that we are seeing more funding. We will see more opportunities here in the next -- as we go forward here in the next 2, 3, 4 quarters, and it's a core part of our business. So we certainly see the mitigation market as a growth market and the FEMA component of that market, a growth market. As you know, I mean, we're a leader on the CDBG side of the mitigation activities. As we've talked about in the past, we've won 5 or 6 mitigation contracts here in the last to 2 or 3 quarters. I think we probably won more opportunities -- or certainly have won at the high end, we're one of the most awarded firms on the mitigation front, CDBG mitigation front. And there's still, as I said in my remarks, significant award decisions pending in that market given the appropriations from 2018, and as I said in my remarks, the additional $2 billion for 2020 that was just announced in the last day.

So I think it is an area of continued growth for us. I think there will be more opportunity there. We expect awards in the near term on -- certainly, we've been discussing the Puerto Rico mitigation opportunities. Those are moving along. We'd expect decisions here in the next quarter or 2 on those. And so we certainly view that as a growth market, Joe, and an increasing -- a market where the trends are becoming more favorable. I know Tobey asked the question, well, what are -- has the administration had an impact? I think we're starting to see some of the initial impacts of this administration in terms of putting more money behind mitigation, which should lead to proposal activities here in the next quarter or 2 for us.

Joseph Anthony Vafi ***Canaccord Genuity Corp., Research Division - Analyst***

Got it. And then IT modernization has been doing really well. It's been a very steady performance on new contract awards. Some of those, obviously, a little bit on the larger side, too. It looks like maybe this quarter was a little lighter. Is there anything building there in the pipeline, in the near-term pipeline? And any kind of commentary on the quarterly bookings there? I know, obviously, sometimes things are lumpy up and down and timing is really more of a factor than anything else.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. Sure. Yes. I mean I think -- well, first of all, I'm quite pleased that the business grew 17% in the quarter. That was good to see. I mean we have a very robust pipeline in IT modernization, Joe. We -- I think we -- the pipeline is north of $1.5 billion. I think it's at record high this quarter. The awards can be lumpy, but I think -- I'm confident that's going to remain a significant growth driver for us here as we look to the future and look to the long term. As I've said before, I think we're in the third or fourth inning here in the federal government of modernizing IT platforms, including civilian platforms. And so I think it's a positive long-term trend for us. So I remain -- I think we remain very excited and very positive on that market.

Operator

Our next question comes from Andrew Nicholas with William Blair.

Trevor Romeo ***William Blair & Company L.L.C., Research Division - Associate***

This is actually Trevor Romeo on for Andrew. First of all, just kind of wanted to ask about the commercial marketing business. I think last quarter, revenue had kind of returned to being roughly flattish, and it declined a bit this quarter. So just curious kind of what caused the incremental weakness this quarter? And any more color on trends for that business and kind of your expected pace of rebound in the future would be really helpful.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Yes. I think the -- I think we -- as you'll see in the release, I think the decline in our commercial revenues was entirely related to commercial marketing services. We did complete a contract in the second half of last year that is certainly impacting the comparisons this year. But beyond that, I would say that commercial marketing services certainly has not recovered in the way we had initially planned this year. I think we thought we'd see some improvement as we got into the second half of the year. We certainly have not seen that improvement. We are managing the business very carefully as we've talked about.

It does represent, as I said, about 9% of our year-to-date revenues. And so I think we -- certainly, there's certain verticals in that in commercial marketing services that continue to be impacted by the pandemic, and client budgets are tight, and clients are being very careful with their spending, and we certainly saw some of that in the third quarter. And so I think that's what's going on in commercial marketing services.

Trevor Romeo ***William Blair & Company L.L.C., Research Division - Associate***

Okay. Got it. That's helpful. And then just on margins. I know this is kind of an estimate in prior quarters, but particularly given the strong margin this quarter, just wanted to see if your view has changed at all on sort of potential for expense savings or sort of the extent to which some of those delayed expenses could come back as we look forward to next year and beyond?

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

I would say that on the expense front, I think we're continuing to reap benefits from the impacts of the pandemic that in the long run will not be -- are not sustainable. But having said that, I think we have talked about the fact that in the long run, we believe that 25% of the travel and entertainment spend prepandemic, we can -- we will save as we go forward. I think we've taken steps to manage our facility footprint, and we continue to look at our facility footprint as a way to reduce our expenses going forward. We think that could be material.

Obviously, some of what you're seeing is we've -- our offices are still closed. So our operating costs in our offices are down. Eventually, we will open up those offices again. And so I think there is some leverage there, but this quarter was quite unusual in -- on several fronts in terms of how we got to the margin levels. I do -- I think we have historically talked about 10 to 20 bps of improvement in adjusted EBITDA to service revenue. Over time, I think there's potential that could go higher given some of the savings that were -- that I've just mentioned. And certainly, we'll -- we continue to take a hard look at that. And I'm sure we'll have a discussion on that as we talk about guidance for next year.

Operator

(Operator Instructions) Our next question comes from Marc Riddick with Sidoti & Company.

Marc Frye Riddick ***Sidoti & Company, LLC - Business and Consumer Services Analyst***

So a few of my questions have already been answered, but I did want to touch a little bit around the -- if you could share some thoughts as to what you're seeing internationally both as far as activity levels as well as potential for adding expertise outside of the States. And then I have a quick follow-up after that.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Well, I would say in terms of the market, I mean, I think we've reported significant growth in our international markets for several quarters now. And I would say in the third quarter, we -- as I said in my remarks, we are seeing some positive signs in the European Commission market and early signs of activation of work. We have a contract to do communications support for the European Commission, where we've seen some recent activation of work. We're seeing a lot of interest in climate and decarbonization out of the European Commission. That's certainly an area where we're going to see growth as we go forward.

And so we're -- the European Commission, with the pandemic receding, we're certainly starting to see signs of activation of work and growth there, which we're quite pleased with. We've also had a project that we talked about that it's been a 1-year energy-related project. They've had -- it will wind down early next year. But even setting that aside, I think we're generally pleased with the trends we're seeing in the European Commission and the opportunities there. On the M&A front, I would say that we're primarily focused, so we are focused here in North America right now on the M&A front.

I think we really believe that given the key growth drivers we're talking about, the highest value could be -- can be achieved with a focus on North America in the key growth markets, IT modernization, health and energy. And so Europe is really not a -- it's not a focus at least for the next year. But obviously, we're out in the market and talking to people. And if we saw -- and I'm sure we'll continue to evaluate opportunities there, but it's not an earlier focus right now on the M&A side.

Marc Frye Riddick ***Sidoti & Company, LLC - Business and Consumer Services Analyst***

Okay. Great. And then my follow-up is around potential headcount adds. I was wondering if you could talk a little bit about whether you're -- sort of how you're feeling about adding on, whether it's on a junior level or -- certainly talent acquisition is sort of pricy at this time, but I just wanted to sort of check in on sort of how you're feeling about sort of layering on the base and getting the foundations stronger.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Well, I mean, obviously, we're a people-driven business. And at the end of the day, if we're growing our revenues, we need to be adding people. We need to be adding headcount. And so we've been able to do that. I think we've -- I will say we're investing -- we've materially increased our investment in recruiting in the last several quarters given the competitive nature of the job market. But with that, we've been able to hire the talent to support our growth. And I think we'll need to maintain and sustain those investments. But generally, we've been able to hire the people in a timely way, and you can see in the results, the growth we're driving.

I do think we will continue to invest in the recruiting. We are quite focused on -- also on the retention side, once we have the people on board, making sure how they engage with our workforce that we're -- we really understand where the market is and we're addressing any market issues, thinking hard about retention, and all the other things you need to do throughout this pandemic, wellness and making sure they balance their work and home life and those types of things. And so -- but on the recruiting front, I think we've generally been able to -- we're certainly adding headcount and have been able to find the people.

Operator

We have no further questions in queue. I will now turn the call over to John Wasson for closing remarks.

John M. Wasson ***ICF International, Inc. - Chairman of the Board, President & CEO***

Well, thank you for participating in today's call. We look forward to meeting you at upcoming events and certainly hope to see you all at our Investor Day in January. Thanks for attending, and take care.

Operator

And thank you, ladies and gentlemen, this concludes our conference. We thank you for participating. You may now disconnect.